

## Message Text

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PAGE 01 OECD P 07283 232029 Z

71

ACTION EUR-25

INFO OCT-01 ADP-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

EA-11 FRB-02 INR-09 IO-12 NEA-10 NSAE-00 RSC-01

OPIC-12 TRSE-00 CIEP-02 LAB-06 SIL-01 SAL-01 OMB-01

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PASS TREASURY

E. O. 11652: N/A

TAGS: EFIN, OECD

SUBJ: EXAMINATION OF NEW AUSTRIAN EXCHANGE MEASURES

REF: A) OECD 05204

B) DAF/INV/72/67

C) DAF/INV/73/4

1. SUMMARY. WITH EFFECT FROM 27 NOVEMBER 1972, AUSTRIA  
SUSPENDED NUMBER OF EXISTING BLANKET AUTHORIZATIONS  
CONCERNING CAPITAL FLOWS FOR PERIOD UNTIL 31 MAY 1973  
(SEE REF A). THESE SUSPENSIONS RESTRICT SIX CAPITAL  
INFLOW ITEMS IN LIST A OF CAPITAL MOVEMENTS CODE AND FOUR  
CAPITAL INFLOW ITEMS IN LIST AUSTRIA HAS SUBMITTED RE-  
QUEST FOR DEROGATION BASED ON ARTICLE 7(B) OF CODE  
WHICH PERMITS DELIBERATIZATION BY MEMBER FACING SERIOUS  
ECONOMIC AND FINANCIAL DISTURBANCE AS RESULT OF MEASURES  
OF LIBERALIZATION ALREADY TAKEN IN FIELD OF CAPITAL  
TRANSACTIONS. CASE WILL GO BEFORE INVISIBLES COMMITTEE  
(IC) ON APRIL 4, 1973. "ACTION REQUESTED". MISSION WOULD  
APPRECIATE DEPT RESPONSE TO PARA 6 BELOW. END SUMMARY.  
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PAGE 02 OECD P 07283 232029 Z

2. AUSTRIAN CASE FOR CONTROLS AND DEROGATION, CONTAINED IN ADDENDUM TO REF ( B), IS BASED MAINLY ON ASSUMPTION THAT DAMAGING INCREASE IN DOMESTIC LIQUIDITY WAS MAINLY RESULT OF CAPITAL INFLOWS IN 1972. HOWEVER, REPORT BY SECRETARIAT ( REF C) SUGGESTS THAT IMPACT OF CAPITAL INFLOWS ON DOMESTIC LIQUIDITY WAS SUBSTANTIALLY LESS IN 1972 THAN IN EITHER 1971 OR 1970. SOME MEMBERS OF IC HAVE ALSO SUGGESTED THAT INCREASE IN LIQUIDITY AND RESERVES WAS MORE A FUNCTION OF BASIC BALANCE THAN OF CAPITAL FLOWS. HOWEVER, AUSTRIAN IC EXPERT BELIEVES STATISTICS CLEARLY INDICATE MORE OF INCREASE IN LIQUIDITY WAS DUE TO FOREIGN FLOWS. FURTHERMORE, HE HAS ALSO NOTED THAT SIZEABLE VOLUME OF GOVERNMENT FUNDS FROZEN FOR ANTI-INFLATIONARY PURPOSES WILL SOON BE COMING BACK INTO USE.

3. IC HAS SUGGESTED THAT THERE WAS INADEQUATE EFFORT TO IMPLEMENT DOMESTIC MEASURES NEEDED TO HALT INFLATION AND RESTRAIN ECONOMY, AND HAS WONDERED WHY MEASURES AFFECTING INTERNATIONAL FLOWS WERE TAKEN BEFORE OTHER MEASURES MORE IN CONCERT WITH CODE WERE ATTEMPTED. AUSTRIAN EXPERT HAS POINTED OUT THAT HIS AUTHORITIES HAVE TAKEN DOMESTIC MEASURES WHICH WERE ALREADY SERIOUSLY IMPINGING ON DOMESTIC FINANCING AND WHICH WERE CAUSING DOMESTIC BORROWERS TO RAISE FUNDS ABROAD. HE HAS ALSO POINTED OUT THAT CENTRAL BANK BELIEVES LARGE PART OF BALANCE IN CURRENT ACCOUNT IS DUE TO CAPITAL INFLOWS CLOAKED AS ERRORS AND OMISSIONS.

4. SEVERAL EXPERTS IN IC HAVE SUGGESTED THAT GIVEN CONTINUED EXISTENCE VARIOUS AUSTRIAN CONTROLS ON CAPITAL OUTFLOWS, IT WOULD HAVE BEEN MORE APPROPRIATE FOR AUSTRIA TO REMOVE SOME OF THESE CONTROLS OVER CAPITAL OUTFLOWS RATHER THAN TO PLACE ADDITIONAL CONTROLS ON INFLOWS. IC HAS ALSO STRONGLY SUGGESTED THAT, WHILE THERE MIGHT BE SOME JUSTIFICATION FOR RESTRICTION OF CERTAIN SECURITY PURCHASES AND COMMERCIAL CREDITS, THERE IS CONSIDERABLY LESS JUSTIFICATION FOR RESTRICTIONS ON DIRECT INVESTMENT, FAMILY LOANS AND TRANSFERS, AND PURCHASE OF LISTED SECURITIES. AUSTRIAN EXPERT HAS RESPONDED BY POINTING OUT THAT, WHILE INWARD FLOWS FOR DIRECT INVESTMENT PURPOSES ARE RESTRICTED, DIRECT INVESTMENT TRANSACTIONS LIMITED OFFICIAL USE

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PAGE 03 OECD P 07283 232029 Z

IN PRODUCTIVE FACILITIES IN AUSTRIA MAY BE UNDERTAKEN IF

AUSTRIAN SOURCE FUNDS ARE USED.

5. SECRETARIAT IS PREPARING EXPANDED ANALYSIS OF AUSTRIAN SITUATION BASED ON IC DISCUSSION AND MATERIALS SUBMITTED BY AUSTRIAN EXPERT. REVIEW THUS FAR SUGGESTS THAT CASE FOR THE AUSTRIAN DEROGATION IS CONSIDERABLY WEAKER THAN THAT FOR SWISS DEROGATION RECENTLY APPROVED BY COUNCIL. CASE COULD BE MADE FOR DISALLOWING CERTAIN OF RESTRICTIONS REQUESTED BY AUTRIA, SUCH AS LIST A, ITEM 10/ A ( FAMILY LOANS CONTRACTED BY RESIDENTS ABROAD), LIST A, ITEM 1/ A ( DIRECT INVESTMENT) AND EVEN LIST A, ITEM 4/ A1 ( PURCHASE OF LISTED SECURITIES BY NON- RESIDENTS).

6. ACTION REQUESTED: IF DEPT WISHES TO REFUT OR ATTEMPT TO MODIFY AUSTRIAN REQUEST FOR DEROGATION WHEN REQUEST EACHES PAYMENTS COMMITTEE AND COUNCIL, MISSION WOULD APPRECIATE HAVING SUPPORTING EVIDENCE, SUCH AS ADEQUATE ANALYSIS OF AUSTRIAN ECONOMIC SITUATIO WHICH CLEARLY SHOWS CAPITAL INFLOWS NOT TO HAVE BEEN MAJOR FACTOR IN DOMESTIC AUSTRIAN INFLATION. WE HAVE ADVANCED LATTER THESIS IN IC, BUT IC IS FAR FROM CONVINCED. BROWN

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\*\*\* Current Classification \*\*\* LIMITED OFFICIAL USE

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